Seagull Resources Limited

1982 Annual Report

Contents

Annual Meeting

The Annual Meeting of shareholders of Seagull Resources Limited will be held at 3:00 p.m., June 22, 1983 at the Seagull Building, 4723 - 1st Street S.W., Calgary, Alberta.

Company Description

Active in petroleum exploration in North America and Australia, Seagull Resources Limited produces both oil and natural gas in Canada and the United States. Moderately diversified, the company is developing coal reserves in Southern Alberta and is active in base metals exploration in Ontario.

Listed on the Alberta Stock Exchange and on NASDAQ in the United States, Seagull is 91 percent Canadian owned.

Front Cover

This year's front cover was designed to depict graphically the significant increases in oil and gas revenue in 1982 compared to 1981. The graph motif is overlaid on photographs of production facilities in Texas. Numerical correlations for the graph apexes are as follows:

Financial Highlights

Financial results for 1982 reflect a change by Seagull from the successful efforts to the full cost method of accounting and a change of its fiscal year-end from October 31st to December 31st, 1982.

Under the newly adopted full cost method, depreciation and depletion amounted to $1.2 million in 1982 compared to $300,000 in 1981, interest on long term debt charged to revenue increased approximately $900,000 or by 100% although long-term debt increased only by 23%.

Thus the increases over last year of depreciation, depletion and interest charged to revenue — totalling $1.8 million — altered a small operating profit for 1982 to the reported operating loss of 35 cents per share.

The above and all financial figures for 1982 are for a 14 month period ended December 31, 1982 pursuant to Seagull's change of fiscal year end.

1982 Operational Highlights

Pipeline construction completed to gas plant. Gas/Condensate wells put on production — Tyler, Texas.

Four Gas wells tied-in and put on production — Goliad County, Texas.

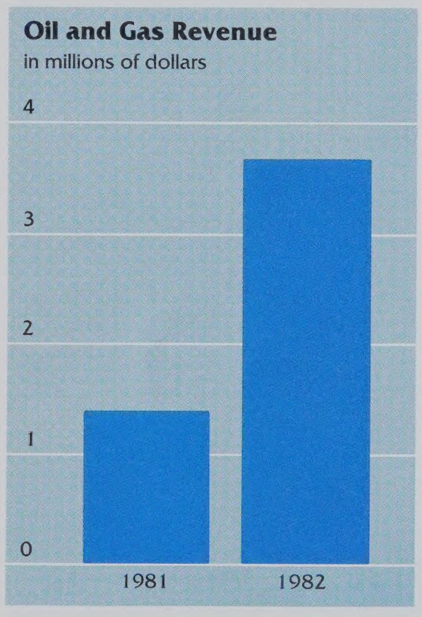
Four gas wells tied-in and put on production, Rosenburg area — Fort Bend County, Texas.

Previously abandoned gas well acquired, re-entered and completed as a producer — Fort Bend County, Texas.

Oklahoma project continued, progress includes 21 wells drilled of which 20 are completed as producers, twelve put on production. Brings to 45 total number of wells drilled in program, 40 completed as producers.

Fenn Rumsey, Alberta, area 100% Seagull owned section farmed-out to another company on the basis of 100% of the cost of seismic and 100% of the cost of a well, if elected, for 50% interest in the land. The other company conjunctively purchased for cash 200,000 common shares of Seagull at a price of $2.50 per share.

Taiyo Oil Co. Ltd., of Tokyo, farmed-in to a four well program currently underway in Fort Bend County, Texas. First oil and gas direct investment by our Japanese shareholders.



Financial Highlights

	Fourteen Months Ended December 31, 1982	Year Ended October 31, 1981
Oil and Gas Revenue	**$3.7 million**	$1.4 million
Operating Loss	**$1.7 million**	$1.66 million
Operating Loss per share	**$0.35**	$0.40
Assets	**$33.3 million**	$27.9 million
Reserve value, oil and gas only, discounted at 15%	**$55.6 million**	$41.9 million

Highlights

President's Letter

Major financial and operational improvements in Seagull's affairs were achieved in 1982 and have continued into the first quarter of this year.

The increase in revenue from oil and gas sales to $3.7 million as at December 31, 1982, representing an increase of more than 300 percent, is the most gratifying achievement, reflecting the positive effect of a well coordinated effort by the organization as a whole.

Significant exploration successes over the past 18 months were followed up by subsequent additional successful wells in the same plays, particularly in Fort Bend and Goliad Counties in Texas and in Haskell and Hughes Counties in Oklahoma.

And I am particularly pleased that our Picton gas/condensate project in Hopkins County, Texas, came on stream in the latter half of the year after, quite frankly, a series of delays which at times began to look interminable.

Two of the Picton wells still require mechanical work to optimize sales from the project; we did, however, complete the pipeline to the plant during the year, we have all the requisite contracts in hand to cover increased volumes as they occur and we expect the necessary well work-overs to be underway imminently.

Financially, I am pleased to report the successful conclusion of new credit arrangements with The Mercantile Bank of Canada and we look forward to a strong and continuing relationship in this regard.

Early in 1982 Seagull arranged a $1 million private placement of common shares with the Taiyo Oil Co. Ltd. of Tokyo for funding of further development of our substantial coal property at Buffalo Hill in southern Alberta. Although this work proved up our earlier assessments of the size and type of the coal deposit, we realistically now recognize the fact of declining world coal markets. I expect our coal development to remain in a holding pattern for the foreseeable short and perhaps medium term and the focus of our efforts to become primarily market oriented. While our earlier marketing efforts had been concentrated in Japan and other Pacific Rim countries through Taiyo, we have recently begun, and indeed have completed the first stage of a review of potential European markets for our coal.

With this unavoidable slowing of our coal development, however, Taiyo has decided to go forward with Seagull in oil and gas exploration and development. A recently concluded arrangement through which Taiyo is investing in a four well program in Texas is expected to be but the first step in a much larger and broader series of hydrocarbon ventures in partnership with our Japanese colleagues.

Seagull has found its relationship with Taiyo to be eminently satisfactory and I fully expect the success of this relatively modest exploration program to lead to much more substantial programs with Taiyo in the short and long term, to the significant benefit of both companies.

As a matter of corporate policy, we feel our decision, taken four years ago, to shift virtually all of our venture capital spending from Canada to the United States has been vindicated. Our 1983 income, based only on current deliverability, is projected to show a ratio — U.S. to Canada of 10:1. We currently operate the prospects which provide 75% of our U.S. income and plan to continue to expand on the same basis.

Seagull is not unmindful, however, of the value and potential of our attractive Canadian land position. Early this year, for example, we farmed out our 100% owned section in the Fenn Big Valley area of Alberta to another oil company. In the arrangement, the Company purchased 200,000 shares of Seagull common stock at $2.50 per share and will pay 100% of a seismic program, and in the event of election to drill, 100% of the cost of a well for a 50% interest in the section. The seismic program is presently being concluded and a decision on drilling is expected in June.

We are currently discussing a package involving virtually all of our Canadian lands with a view to participation through further evaluation and/or drilling by others.

Our drilling programs planned for 1983 include 18 development wells in Texas and Oklahoma in the areas in which we have been successful to date.

I am particularly optimistic about Seagull's immediate term growth. Our noted tripling of income at the end of 1982 was heavily weighted by income increases in the last quarter, reflecting wells put on production in mid-year.

As a result Seagull operated at a net profit in the month of October 1982 for the first time in its history and the net profit position has continued through the 1st quarter of 1983 despite some prorationing of U.S. production due to temporarily spotty markets.

Thus, with the improved deliverabilities associated with the beginning of the U.S. economic recovery and with our new bank support bolstered by an infusion of equity capital, Seagull would be extremely well positioned for significant expansion, both through development of our own prospects and through acquisition opportunities.

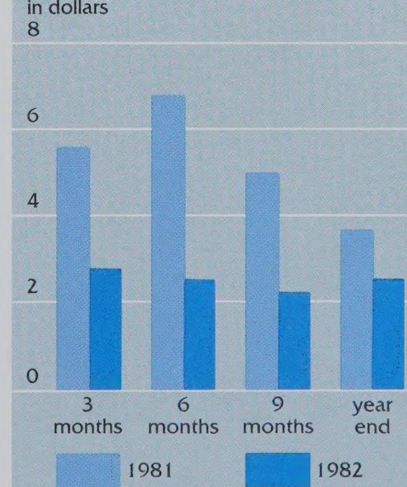
In light of all these positive developments I am at a loss to explain the reasons for our traded stock market price declining at the same time and at about the same rate as our revenue is increasing. I can only draw your attention to the facts as depicted on the graphs opposite.

I wish to express my appreciation to the Seagull staff for a fine effort in 1982.

Hugh C. Findahl

Quarterly Oil and Gas Revenue
in millions of dollars

Quarterly Average Stock Market Quoted Prices for Seagull Common Stock
in dollars



United States Operation

Following a decision taken four years ago to concentrate exploration investment in the United States where wellhead returns are higher than in Canada, Seagull has amassed 32,000 net acres in a gross land position covering approximately 285,000 acres.

During 1982 Seagull's drilling activity resulted in a success rate substantially in excess of industry averages: approximately 80 percent on wells operated by Seagull and approximately 50 percent on non-operated wells.

Picton Prospect

Located in Hopkins County, Texas, the Picton prospect comprises three natural gas/condensate wells drilled prior to 1982 approximately six miles from a gas plant near the town of Como. A complex land ownership situation led to extreme complications in administrative execution of lease, royalty and gas plant agreement documentation. Following a number of unavoidable delays, a pipeline was constructed to the plant this summer and two of the three wells were put on production. Mechanical problems have been encountered in the third well which is expected to be re-worked imminently.

Technical production problems subsequently encountered in the second well also contributed to lower production volumes than originally projected.

Although these mechanical problems have kept aggregate production of condensate and gas below previously calculated deliverability, current average production of approximately 2.5 million cubic feet of gas plus 250 barrels of condensate per day is encouraging.

Seagull has an average one-third interest in the wells and owns approximately 29 percent of the pipeline constructed this year to the gas plant.

Varying geological assessments of the Picton property indicate further drilling and development, utilizing the same pipeline complex for transportation to market, could significantly increase deliverabilities to the gas plant. Seagull has opted to postpone further assessments and additional geological work preparatory to development drilling until after payout of the current producers.

Rosenberg Area

The internally generated geological assessments, which resulted in Seagull's earlier land acquisition and drilling in the Rosenberg area to the north of our Guntle #1 well, have led to additional drilling prospects for 1983.

The Robinowitz wells (#1 and #2) the G.C. Benton Estate #1 and the Huntington #1 wells were put on production during 1982. Subsequent activity in the area included the acquisition of a relatively small parcel of land containing a gas well abandoned by the previous operator.

Dodson well site and production facilities in Picton Field.

United States Petroleum Operations

Our geological assessment indicated a high probability of substantial volumes of gas left unproduced by the previous operator. Accordingly, the well, Melvin Miller #1 was successfully re-entered, tested and is expected to produce approximately 750,000 cubic feet of natural gas per day. Seagull has approximately 30 percent interest in the well and plans to drill a second well on the acreage.

Four additional locations generated by our producing wells in this area are now being prepared for drilling. On April 22, the Taiyo Oil Co. Ltd., of Tokyo agreed to a farm-in arrangement involving 50 percent of Seagull's interest in the new locations.

This exploration program represents the first direct investment in an oil and gas venture by Taiyo with Seagull and is expected to be followed by much more significant exploration joint ventures by the two companies in due course.

Dial Prospect

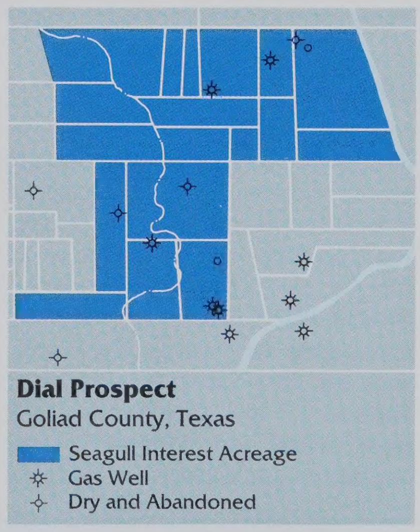
The first wells drilled in this multi-zone natural gas play in Goliad County, Texas corroborated Seagull's internal geological evaluation of the 3,000 acre play adjudged as demonstrating a similar geological setting to our previous successful venture in Fort Bend County, approximately 100 miles to the east.

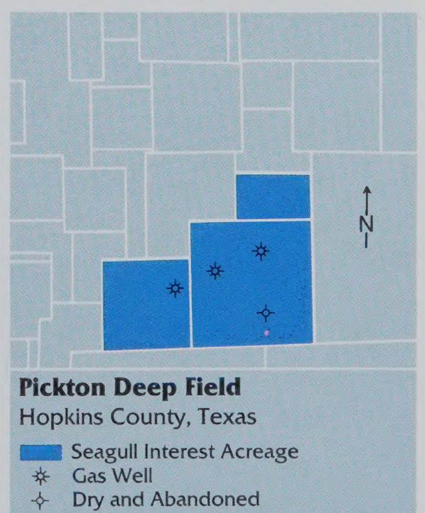
Five wells, Noel Dietzel #1 and #2, and G.B.R.A. #1, #3 and #4 were tied-in and put on production in 1982 in this 3,000 acre play.

Seagull has a 25 percent interest in these wells from which production has recently been cut back, due to temporary softening of markets, to approximately 2.5 million cubic feet per day in aggregate.

The Company has identified a number of development locations as a result of the success of the first drilling program. In addition, Seagull has extremely interesting deep prospects in the area covering the majority of the 3,000 acres involved.

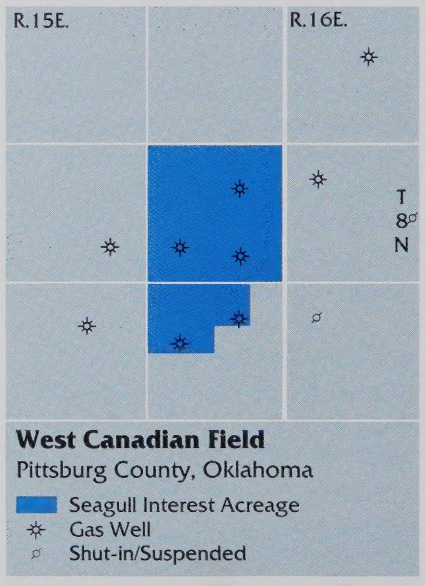
Condensate from the Picton Prospect in Hopkins County is stored at this plant in Como, Texas.



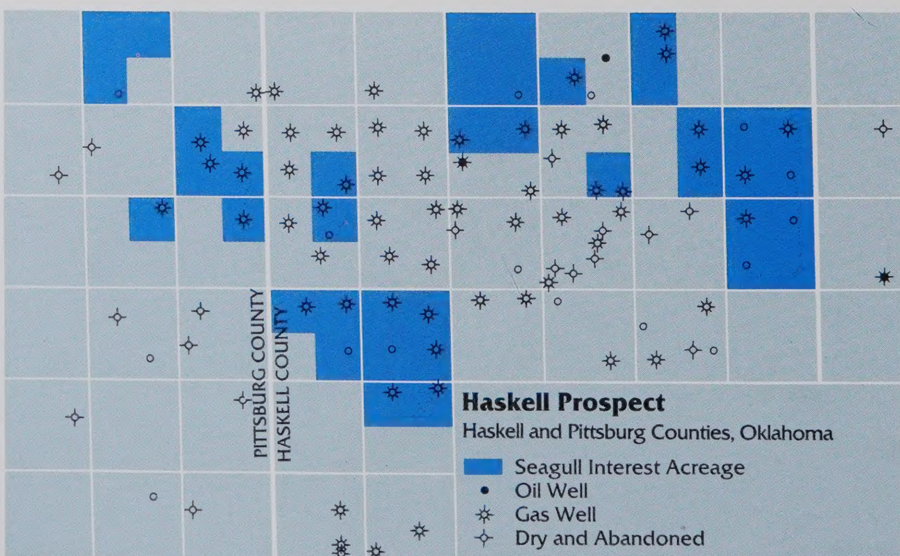


Oklahoma Development

In the Canadian prospect, in Pittsburg County, Oklahoma, Seagull has approximately a 30% interest in 1,000 acres of oil and gas leases. The Company has drilled five wells on the property: The Moncrief, McDuff and Cox Fulton #1 wells completed as natural gas wells, were put on production. The Hold Orbison #2 and Cox Orbison #3 were drilled and completed and are shut-in gas wells.



West Canadian Field
Pittsburg County, Oklahoma



Haskell Prospect
Haskell and Pittsburg Counties, Oklahoma

Project 400

Seagull's land acquisitions in Haskell, Pittsburg and MacIntosh Counties, Oklahoma, developed since 1978, include 840 net acres in a gross land position of approximately 5,300 acres. During the year, the Company intensified its drilling activity in this highly prolific acreage which was extended to the south in 1981 through a farm-in to the land position of a major oil company.

In project 400, including the farmed-in acreage, twenty-two wells were drilled in 1982. Of these, 21 were completed as producers. Including six wells drilled prior to 1982, successful wells drilled in this play are: ACE 1-3, ACE 1-4, ACE 1-33, ACE 1-34, ACE 1-35, ACE 2-35, M. Ballard, Quinton Dutch #1, First Oklahoma Resources, Fitzer #1, Fulsom #1, Homer Hedges 1-11, J. C. Houck, Howedeshell #1, J. R. Mace #1, Aubrey Prince 1-1, Aubrey Prince 1-12, Jeryl Prince #1, Spinnaker Point #1, Brin #1, Foreman #1, Harrison #1, Kruger #1-17, Kruger #1-20, Kruger #2-20, Carl Smith #1-18 and Yance #1-17.

A pipeline being constructed specifically for the purpose connected twelve of the wells in 1982. The remaining producers will be put on production as market conditions improve with the turnaround in the U.S. economy.

Aggregate gross deliverability for the 27 producers in Haskell County has been projected at approximately 30 million cubic feet of natural gas per day. This sharp increase from earlier projections

Pipeline trenching — Picton Pipeline Company, a wholly owned subsidiary of Seagull.

is based on an actual production increase from three million cubic feet per day to 18 million cubic feet per day in December 1982 following the installation by Seagull of additional compression affecting the twelve producing wells.

The 1982 drilling program brings to 45 the total number of participation wells in Oklahoma. Of these 40 have been completed as producers, in which the Company's average interest is approximately 16 per cent.

Project 300

Seagull has retained its interest in five producing and three shut-in gas wells drilled in Hughes County prior to 1982. The producers are relatively low productivity wells and Seagull has no current plans for further development of the Project 300 venture.

Non-Operated Producing Properties

Seagull has varying minor interests in a total of seven oil wells in Texas, Louisiana and California and in five oil/gas wells in Texas, all operated by others for Seagull. Further development of some of these interests is probable.

United States
Net Seagull Interest Production

	Natural Gas, mcf			Oil, bbl		
Non-operated	**1981**	**1982**	**Total**	**1981**	**1982**	**Total**
Oklahoma						
Haskell County	-0-	**75,896**	75,896	no oil production		
Other	40,854	**40,067**	80,921			
Total	40,854	**115,963**	156,817	-0-	**-0-**	-0-
Texas and Louisiana	5,729	**7,014**	12,743	1,506	**1,829**	3,335
TOTAL NON-OPERATED	46,583	**122,977**	169,560	1,506	**1,829**	3,335
Operated						
Texas						
Fort Bend County	137,429	**138,192**	275,621	-0-	**-0-**	-0-
Goliad County	-0-	**56,454**	56,454	-0-	**-0-**	-0-
Hopkins County	-0-	**61,014**	61,014	-0-	**8,353**	8,353
Total	137,429	**255,660**	393,089	-0-	**8,353**	8,353
TOTAL ALL AREAS	184,012	**378,637**	562,649	1,506	**10,182**	11,688

Seagull Interest
Operated Production, Texas

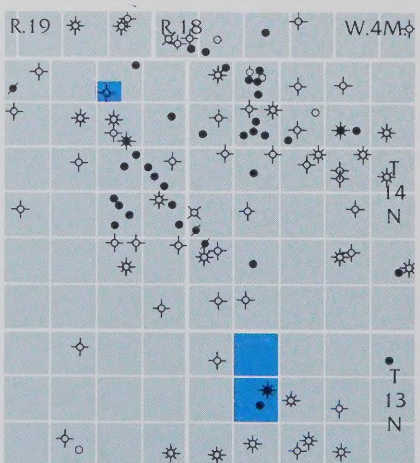
		Natural Gas, mcf		Oil, bbl	
County & Well	**NRI**	**1981**	**1982**	**1981**	**1982**
Fort Bend County					
Guntle #1-U	28.25	49,440	**24,077**	no oil production	
Guntle #1-L	28.25	87,989	**33,853**		
Robinowitz #1-U	26.44	-0-	**15,721**		
Robinowitz #1-L	26.44	-0-	**2,057**		
Robinowitz #2	26.44	-0-	**43,868**		
Benton #1-U	21.09	-0-	**8,251**		
Benton #1-L	21.09	-0-	**1,337**		
Huntington #1-U	21.09	-0-	**7,028**		
Huntington #1-L	21.09	-0-	**-0-**		
Total		137,429	**138,192**	-0-	**-0-**
Total in Cubic Metres		3,872 10^3m^3	**3,893 10^3m^3**		
Goliad County					
Noel Dietzel #1	18.75	-0-	**10,620**	no oil production	
Noel Dietzel #2	17.50	-0-	**6,411**		
G.B.R.A. T-1	11.67	-0-	**4,903**		
G.B.R.A. 1-C	11.67	-0-	**4,011**		
G.B.R.A. B-3	17.50	-0-	**7,233**		
G.B.R.A. B4-U	17.50	-0-	**8,437**		
G.B.R.A. B4-L	17.50	-0-	**14,839**		
Total		-0-	**56,454**	-0-	**-0-**
Total in Cubic Metres			**1,590 10^3m^3**		
Hopkins County					
Dodson	28.00	-0-	**51,263**	-0-	**6,782**
Randolph	22.35	-0-	**9,751**	-0-	**1,571**
Total		-0-	**61,014**	-0-	**8,353**
Total in Cubic Metres			**1,719 10^3m^3**		
ALL AREAS		137,429	**255,660**	-0-	**8,353**

Canadian Petroleum Operations

Seagull's land position in Canada, comprising 50,000 net acres in an overall exposure of 225,000 gross acres, remain relatively unchanged in 1982. In light of its continuing concentration of direct exploration activity outside of Canada, the Company is continuing to seek farmors for its Canadian land package which includes particularly attractive positions in Edson, Erith and Rainbow areas of north central and north western Alberta.

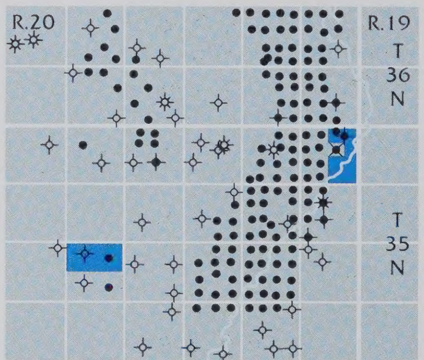
Seagull recently completed an arrangement in which another oil company agreed to conduct a seismic program at no cost to Seagull on our 100% owned section of land in the Fenn Rumsey area of central Alberta. The other company conjunctively purchased 200,000 shares of Seagull common stock at a price of $2.50 per share. Following interpretation of three lines of seismic across the section, the other company requested, and was granted, a 45 day extension, to June 15th, 1983, of the date at which election to drill had been set. The extension was requested to provide time for the shooting of an additional line to corroborate a target identified by the original seismic program.

If it elects to drill, the other company will spend 100% of the cost of the seismic and one well to earn 50% of the land. In the event of an election not to drill, all rights will revert to Seagull.



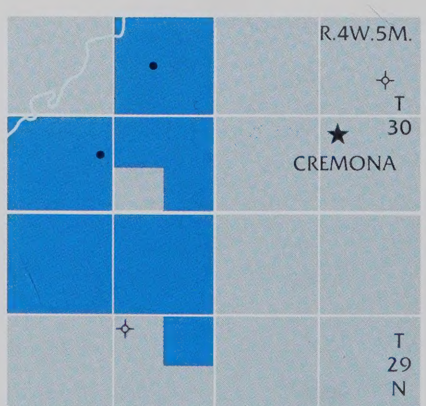
Retlaw
Alberta

Seagull Interest Acreage
• Oil Well
☼ Gas Well
✧ Dry and Abandoned



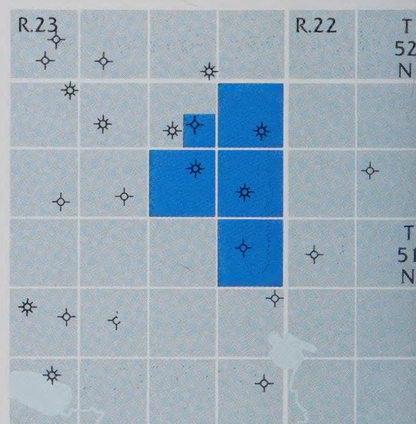
Fenn Big Valley
Alberta

Seagull Interest Acreage
• Oil Well
☼ Gas Well
✧ Dry and Abandoned



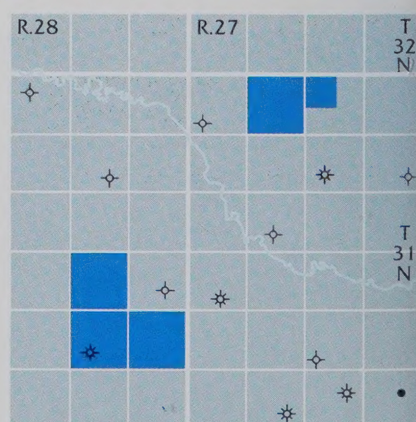
Dogpound
Alberta

Seagull Interest Acreage
• Oil Well
✧ Dry and Abandoned



Hercules
Alberta

Seagull Interest Acreage
☼ Gas Well
✧ Dry and Abandoned



Burns Lake
Alberta

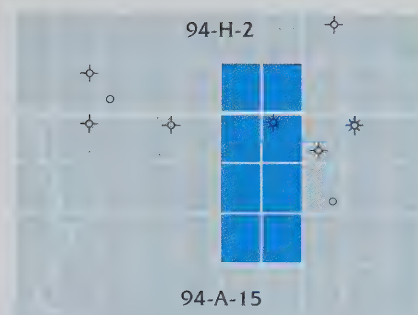
Seagull Interest Acreage
• Oil Well
☼ Gas Well
✧ Dry and Abandoned

Canadian Petroleum Operations

Seagull has begun initial negotiations to farm-out part of its interest in all the remainder of its Canadian land position in a single package in exchange for exploration work and drilling.

Mannville
Alberta

Seagull Interest Acreage
Gas Well
Dry and Abandoned

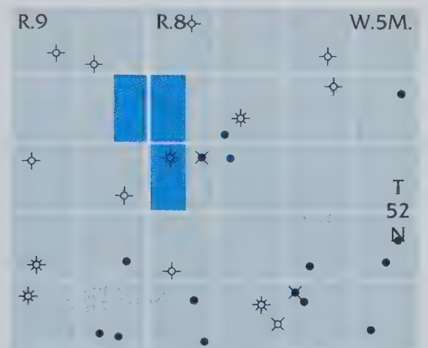


Kestrel
Alberta

Seagull Interest Acreage
Gas Well
Dry and Abandoned

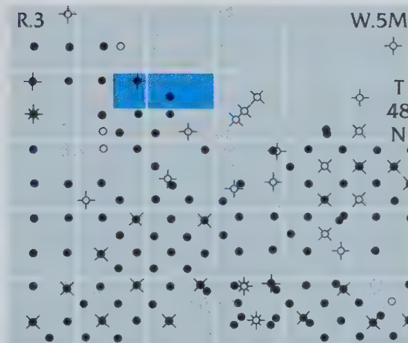
Medicine River
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned



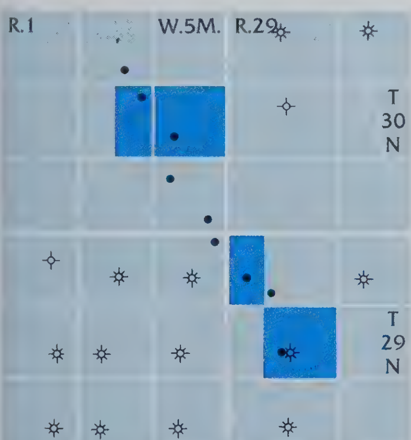
Bigoray
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned



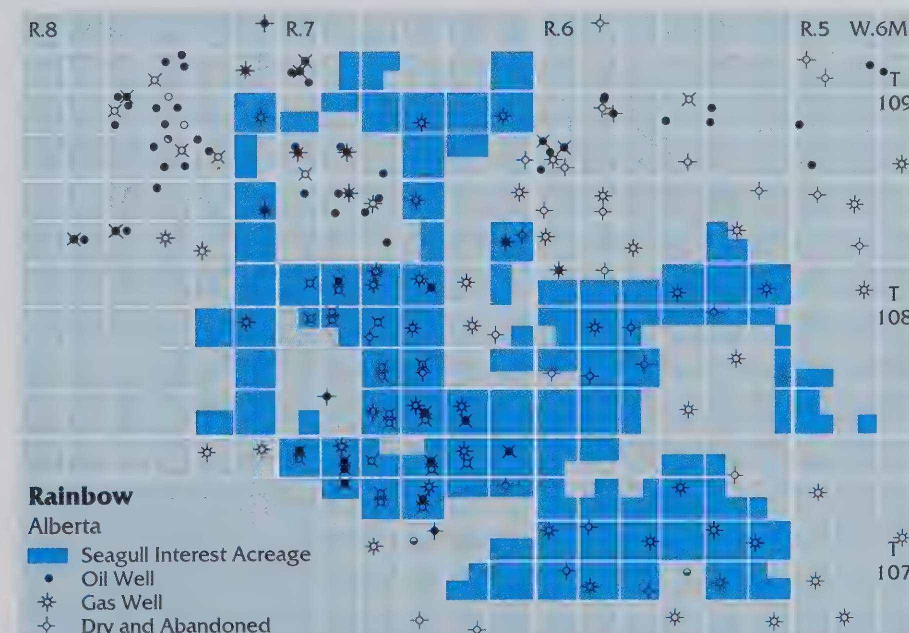
Pembina
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned



Crossfield East
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned



Rainbow
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned

Canadian Arctic Position

Seagull continues to hold various royalty interests in 378,909 acres in the Canadian Arctic Islands. Some of the acreage is in the general area of fairly recent drilling successes announced by a major northern explorer.

Buick Creek
British Columbia

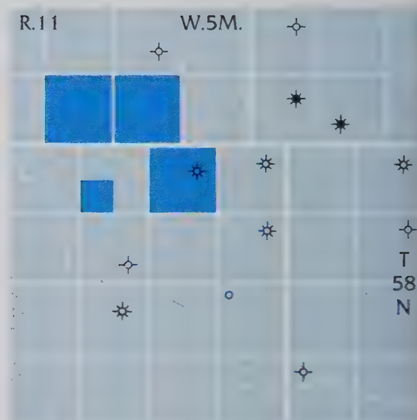
Seagull Interest Acreage
Gas Well
Dry and Abandoned

Otter Creek
British Columbia

Seagull Interest Acreage
Gas Well
Dry and Abandoned

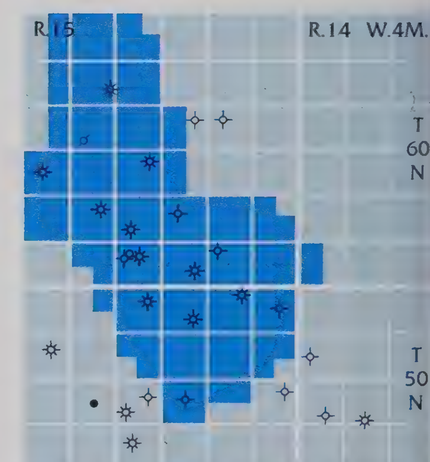
Wilder
British Columbia

Seagull Interest Acreage
Gas Well
Dry and Abandoned



Blueridge
Alberta

Seagull Interest Acreage
Gas Well
Dry and Abandoned



Bellis Unit No. 2
Alberta

Seagull Interest Acreage
Oil Well
Gas Well
Dry and Abandoned

German North Sea and Papua/New Guinea

International Exploration Activity

Outside of North America, Seagull has a minor overriding royalty in the Jade Plate concession and a 10 percent interest in permit J2 in the German North Sea.

During the year Seagull applied for a prospecting permit covering 6,000 square kilometres onshore and offshore Papua-New Guinea.

No further activity is projected for these interests in the near term.

Australian Operations

A 23 million acre tract of land previously acquired in Queensland, Australia, and comprising two contiguous ATPs (Authority to prospect) was subsequently farmed out to a subsidiary of Exxon. Exxon undertook an earning commitment involving 750 kilometres of seismic and three exploratory wells on ATP 265 and 3,500 kilometres of seismic and six exploratory wells on ATP 268.

In 1982 Exxon drilled two wells (Swaylands on ATP 265 and Vergemont on ATP 268) for a total of four wells, two on each ATP drilled in the exploratory program.

The seismic commitment has been substantially exceeded with approximately 7,500 kilometres completed on ATP 268 and 1,150 kilometres completed on ATP 265.

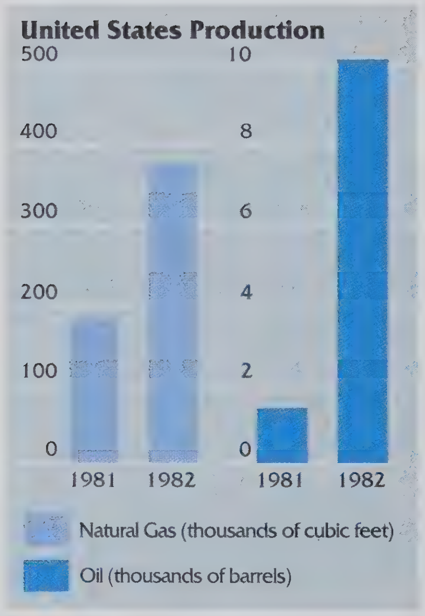
All exploratory wells were drilled to very large structures in which targets were assessed as more than 200 million barrels of oil and one-quarter of a trillion cubic feet of natural gas.

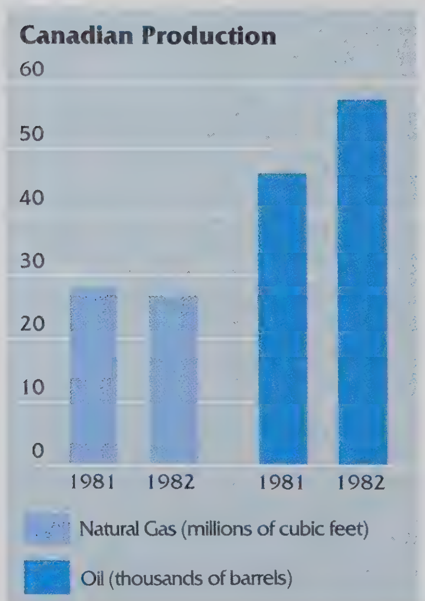
The exploratory wells, although dry and abandoned, provided valuable stratigraphic information regarding formation age, reservoir quality and source rock potential. Similar potential is indicated for future planned drilling.

Seagull is fully carried, as to its 10 percent interest, through the program including the remaining five exploratory wells. This 10 percent interest reduces to 4 percent in ATP 265 and 3 percent in ATP 268 only after the drilling of all nine wells.

Drilling in Queensland, Australia by Exxon at Isis Downs.

Operational Statistics





North American Land Holdings

December 31, 1982

	Developed Acreage		Undeveloped Acreage	
	Gross	Net	Gross	Net
United States				
Arkansas	—	—	320	20
California	85	11	4,963	66
Colorado	640	13	41,026	802
Kansas	—	—	147,955	17,374
Louisiana	360	22	3,805	222
Montana			395	123
North Dakota	160	—		
Oklahoma	7,440	1,203	1,945	486
Texas	8,623	2,016	23,349	4,741
Utah	—	—	19,660	2,360
Wyoming			24,939	2,890
TOTAL U.S.	17,308	3,265	268,357	29,084
Canada				
Alberta	71,800	5,381	133,939	42,211
British Columbia	6,636	1,187	10,216	1,986
Saskatchewan	640	140	320	320
TOTAL CANADA	79,076	6,708	144,475	44,517
GRAND TOTALS	96,384	9,973	412,832	73,601

Net Reserves

As at December 31, 1982

	OIL (thousands of barrels)	M^3	GAS (Millions of cubic feet)	10^3M^3	Net Future Income discounted at 15% thousands of dollars
Canada					
Proved	68	10 812	9,203	259 248	$12,303
Probable	226	35 934	6,081	171 302	$ 8,775
Total	294	46 746	15,284	430 550	$21,078
United States					
Proved	341	54 219	8,150	229 618	$32,643
Probable	7	1 113	940	26 483	1,827
Possible	—	—	54	1 521	1,424
Total	348	55 332	9,144	257 623	$34,612

	OIL (Thousands of barrels)		GAS (Millions of cubic feet)		Net Future Income Discounted at 15%
TOTAL RESERVES	**642**	**102 078**	**24,428**	**688 173**	**$55,690,000**

Coal Division

Seagull had completed, by the third quarter, the 1982 drilling program on its 45,000 acre coal property located at Buffalo Hill, approximately 45 miles south-east of Calgary, Alberta. The leases, which have a term of 15 years and are 100 percent owned by Seagull, were the last to be issued by the Government of Alberta prior to its withdrawal in 1977 of all crown coal properties in the province.

Seagull conducted a preliminary drilling program in 1979 which proved the existence of this new coal field. In 1981 a more extensive program indicated 700 million tons of thermal coal within the lease property.

In addition to the significant drilling program, 1982 coal development activities touched on marketing, liaison with the Alberta Government and study missions to several western European countries.

From the results of the drilling, it has been determined that one major seam (The Buffalo Hill seam) is laterally continuous across the property, dipping gently to the west.

Geological or in-place reserves for the Buffalo Hill Seam in a particular study area comprising 12,800 acres, are calculated to be 254 million tons, of which 186 million tons are considered mineable. Of this 118 million tons are assignable to Seagull Resources lease lands, utilizing a range of mining width from 5 feet to 11 feet.

As a result of the studies and the drilling programs conducted to date, it has been concluded that the south-eastern portion of the Seagull property is positively indicated as a location of one, and potentially two, mine sites with close proximity to rail transportation and the necessary supportive infrastructure.

Approval in principal, the first step in obtaining full official sanction of the project, was granted by the Alberta Government following submission during the year of Seagull's preliminary disclosure of development plans.

By the end of the year, however, it became apparent that world recession, oversupply of coal stockpiles and reducing crude oil prices had combined to substantially slacken coal markets. The Taiyo Oil Co. Ltd. of Tokyo which acts as our marketing arm in the Pacific Rim and has an option, under certain conditions, to earn an equity position in the coal property, has corroborated the downturn in current world coal demand.

For these reasons Seagull has decelerated the coal development to a marked degree to match a timetable setting back earliest deliveries — by a period of two to three years — to 1987 and possibly later.

Base Metals

Seagull owns 100 percent of 320 leases covering approximately 13,000 acres as its Sturgeon Lake, Ontario base metals property. Over the 1980/81 winter 14 test holes were drilled, all of which contained copper and zinc mineralization with some disseminate silver.

Of these, test holes number 5 and 6, located approximately 300 feet apart, assayed at 10.67% and 1.21% zinc respectively in sections in excess of five feet. In addition, silver in hole number 6 assayed at 0.8 ounces per ton. These values indicate only that concentrations of these minerals may occur on the property. Significant additional drilling would be required to indicate a probability of economic volumes.

Seagull's Sturgeon Lake property is bound by mineable ore bodies on both sides and operated by major Canadian mining companies, one of which has an idle mill in the area as a result of a reduction in its located ore reserves.

Darkwater Gold Mine

Wholly contained on the Sturgeon Lake property is the Dark Water Gold mine which warranted construction of surface and subsurface operating facilities prior to discontinuing operations in the early 1940s due, presumably, to lack of economics at then current prices in the $35 per ounce range.

A recently completed geological report, which recommends initial on-site exploration work for further evaluation of gold values and ore tonnages set forth in the original mine property assessments, is encouraging.

Seagull plans to conduct this initial exploration work in the immediate term.

In addition the Company recently acquired a number of mining claims in the general area of the Steep Rock property at Sturgeon Lake, Ontario.

Consolidated Balance Sheet

ASSETS

	December 31, 1982	October 31, 1981
		(note 2)
CURRENT ASSETS		
Cash	$ 92,399	$ —
Accounts receivable		
Trade	1,017,435	222,034
Joint venture	2,733,007	3,745,118
Officers and directors	—	98,817
Prepaid expenses	50,480	9,562
	3,893,321	4,075,531
PROMISSORY NOTE RECEIVABLE (note 9(b))	100,000	330,000
RECEIVABLE UNDER SHARE PURCHASE PLAN (note 9(c))	140,250	693,010
INVESTMENT IN OTHER COMPANIES, at cost (quoted market value 1982 — $127,205; 1981 — $463,302)	373,318	651,333
PROPERTY AND EQUIPMENT, at cost (note 3)	30,952,828	23,152,290
Accumulated depletion and depreciation	2,266,078	1,002,274
	28,686,750	22,150,016
OTHER ASSETS	145,664	37,702
	$33,339,303	$27,937,592

Approved by the Board

Director

Director

LIABILITIES

	December 31, 1982	October 31, 1981
		(note 2)
CURRENT LIABILITIES		
Bank indebtedness	**$ —**	$ 1,428,451
Accounts payable and accrued liabilities		
Trade	**1,979,276**	44,857
Joint venture	**3,339,484**	1,339,683
Accrued liabilities	**528,591**	971,476
Current maturities on long-term debt	**510,000**	11,146
	6,357,351	3,795,613
DEFERRED REVENUE	**171,706**	—
LONG-TERM DEBT (note 4)	**19,258,940**	15,345,085

SHAREHOLDERS' EQUITY

	December 31, 1982	October 31, 1981
CAPITAL STOCK (note 5)		
Authorized		
1,000,000 Preferred shares with $10 par value, issuable in series		
15,000,000 Common shares without par value		
Issued		
280,000 9% cumulative redeemable convertible preferred shares, Series A	**—**	2,800,000
5,071,879 Common shares (1981 — 4,303,879 shares)	**13,478,424**	10,001,924
	13,478,424	12,801,924
DEFICIT	**(5,927,118)**	(4,005,030)
	7,551,306	8,796,894
	$33,339,303	$27,937,592

Consolidated Statement of Earnings

	Fourteen Months Ended December 31, 1982	Year Ended October 31, 1981
		(note 2)
Revenue		
Sale of oil and gas	**$ 3,698,357**	$ 1,361,706
Less royalties	**683,012**	166,564
	3,015,345	1,195,142
Interest and other	**423,893**	3,168
	3,439,238	1,198,310
Expenses		
Production	**537,931**	157,695
Engineering and consulting	**291,857**	190,140
General and administrative	**887,382**	881,726
Interest on long-term debt (note 6)	**1,949,705**	1,074,258
Depletion and depreciation	**1,263,804**	339,416
	4,930,679	2,643,235
Loss before the undernoted	**(1,491,441)**	(1,444,925)
Gain (loss) on investments in other companies	**(206,225)**	30,251
Loss before income taxes and extraordinary item	**(1,697,666)**	(1,414,674)
Income taxes		
Deferred income taxes	**244,585**	—
Provincial royalty tax credit	**(120,058)**	—
	124,527	—
Loss before extraordinary item	**(1,822,193)**	(1,414,674)
Extraordinary item		
Income tax reduction on the application of prior years' losses	**(244,585)**	—
LOSS	**(1,577,608)**	(1,414,674)
Dividends on preferred shares	**(126,000)**	(252,000)
LOSS APPLICABLE TO COMMON SHARES	**$(1,703,608)**	$(1,666,674)
LOSS PER COMMON SHARE		
Loss before extraordinary item	**$(.40)**	$(.40)
Loss	**$(.35)**	$(.40)

Consolidated Statement of Deficit

	Fourteen Months Ended December 31, 1982	Year Ended October 31, 1981
		(note 2)
DEFICIT AT BEGINNING OF YEAR		
As previously reported	**$(4,005,030)**	$(3,660,529)
Adjustment resulting from change in accounting policies (note 2)	**—**	1,322,173
As restated	**(4,005,030)**	(2,338,356)
Loss	**(1,577,608)**	(1,414,674)
Purchase of common shares (note 9(c))	**(218,480)**	—
Dividends on preferred shares	**(126,000)**	(252,000)
DEFICIT AT END OF YEAR	**$(5,927,118)**	$(4,005,030)

Consolidated Statement of Changes in Financial Position

	Fourteen Months Ended December 31, 1982	Year Ended October 31, 1981
		(note 2)
WORKING CAPITAL DERIVED FROM		
Issue of common shares	**$ 3,810,780**	$ 3,453,792
Proceeds on sale of investments in other companies	**86,765**	70,250
Increase in long-term debt	**3,913,855**	8,263,651
Increase in deferred revenue	**171,706**	—
Reduction of promissory note receivable	**330,000**	—
Reduction of receivable under share purchase plan	**552,760**	—
	8,865,866	11,787,693
WORKING CAPITAL APPLIED TO		
Operations	**100,454**	1,100,690
Additions to property and equipment	**7,822,638**	7,471,483
Dividends on preferred shares	**126,000**	252,000
Promissory note receivable	**100,000**	—
Conversion of preferred shares	**2,800,000**	—
Purchase of common shares issued under share purchase plan	**552,760**	—
Business combination	**—**	1,997,377
Receivable under share purchase plan	**—**	528,010
Investments in other companies	**—**	422,359
Other assets	**107,962**	20,823
	11,609,814	11,792,742
INCREASE (DECREASE) IN WORKING CAPITAL POSITION	**(2,743,948)**	(5,049)
WORKING CAPITAL AT BEGINNING OF YEAR	**279,918**	284,967
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	**$(2,464,030)**	$ 279,918

Notes to Consolidated Financial Statements

Fourteen Months Ended December 31, 1982

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries are accounted for by the purchase method and, accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings. The excess of the consideration paid for shares of subsidiary companies over the net book value of the assets acquired has been included in property and equipment in the consolidated balance sheet and is being amortized on the same basis as such assets.

(b) Property and Equipment

(i) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs, net of proceeds from minor disposals of property, plus estimated future capital costs associated with proved reserves, are accumulated and depleted on a country by country basis (except for frontier areas of Canada which are considered separate cost centres) using the unit of production method based upon estimated proved reserves as determined by the Company's and independent consulting engineers. Costs of major development projects together with related interest costs are excluded from the computation of depletion until additional reserves are proved, the project is complete or an impairment in value has occurred. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative energy content of each product.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to the Company's total reserves in the particular cost centre.

All of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(ii) Mineral Properties

Acquisition costs of mineral properties are capitalized by area of interest including exploration and development expenditures related to such properties and interest on long-term debt and overhead expenses related to the costs of mineral properties where active exploration and development activities are underway. Costs are capitalized as long as the properties are considered to be of value. The costs of such properties are written off against earnings if abandoned or will be amortized on a unit-of-production basis on commencement of commercial production.

(c) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided using the unit of production method based upon estimated proved reserves as determined by the Company's and independent consulting engineers.

Depreciation of other property and equipment is provided on a straight-line basis over the estimated life of each asset at an annual rate of 10%.

(d) Foreign Currencies

The accounts of the Company which are denominated in foreign currencies and in those of its foreign subsidiary companies are translated into Canadian dollars on the following basis:

(i) current assets and liabilities, at the rate of exchange as at the balance sheet date;

(ii) all other assets, liabilities, and depletion and depreciation, at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Unrealized gains or losses resulting from such translation practices are capitalized as part of property and equipment and are amortized in accordance with the policies outlined in note 1(b) and (c). Realized gains or losses are reflected in earnings.

2. CHANGE IN ACCOUNTING POLICY

Prior to 1982, the Company followed the practice of capitalizing the acquisition, exploration and development costs of both producing and non-producing properties by project area of interest together with interest on long-term debt related to costs of project areas where major development activities were underway. Costs were capitalized until it was determined whether or not economic reserves did exist. If no economic reserves existed within an area of interest, all costs related to that area were charged to earnings. If economic reserves did exist, all costs related to that area were amortized using the unit of production method based upon estimated quantities of petroleum and natural gas as determined by the Company's engineers.

Prior to 1982, depreciation of production equipment and related facilities was calculated on a straight line basis using an annual rate of 10%.

In 1982, the Company adopted, on a retroactive basis, the full cost method of accounting for petroleum and natural gas operations, as outlined in note 1(b), and the unit of production method of depreciating production equipment and related facilities as outlined in note 1(c).

The effect of this retroactive change is to decrease the previously reported loss for 1981 by $822,000 ($.20 per share) and decrease the loss by $1,603,000 ($.34 per share) for the fourteen months ended December 31, 1982.

3. PROPERTY AND EQUIPMENT

	1982			1981
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada	**$ 9,122,042**	**$1,193,295**	**$ 7,928,747**	$ 8,014,167
United States	**16,819,044**	**1,003,295**	**15,815,749**	10,842,931
Other	**694,376**	**—**	**694,376**	568,489
Mineral properties	**4,160,217**	**—**	**4,160,217**	2,582,340
Other property and equipment	**157,149**	**69,488**	**87,661**	142,089
	$30,952,828	**$2,266,078**	**$28,686,750**	$22,150,016

4. LONG-TERM DEBT

	Interest Rate	Maturity Date	Repayment Terms	1982	1981
Demand production bank loans (1982 — $8,356,625 U.S., 1981 — $5,995,000 U.S.)	U.S. bank prime + 1½%			**$9,984,169**	$ 7,035,934
Demand production bank loans	Prime + 1½%			**4,618,250**	3,285,000
Convertible debenture	Prime	March 16, 1986	Payable on or before maturity	**1,000,000**	1,000,000
12% Series Two Convertible Promissory Notes	12%	(see below)		**4,000,000**	—
12% Series One Convertible Promissory Notes	12%	(see below)		**—**	4,000,000
Other				**166,521**	35,297
				19,768,940	15,356,231
Less current maturities included in current liabilities				**510,000**	11,146
				$19,258,940	$15,345,085

The demand production bank loans are secured by demand promissory notes and by specific petroleum and natural gas properties, accounts receivable and investments in other companies.

The Convertible Debenture bears interest at a bank prime rate, is secured by a floating charge on all assets of the Company and is convertible prior to maturity to common shares of the Company at $8.50 per common share.

The 12% Series One Convertible Promissory Notes matured November 2, 1981 and were replaced by 12% Series Two Convertible Promissory Notes. The 12% Series Two Convertible Promissory Notes matured November 2, 1982 and were convertible prior to maturity to common shares of the Company at $5.00 per common share. The notes were issued to a company managed and owned by an officer and director of the Company and his relatives. Subsequent to December 31, 1982, the Company entered into an agreement to replace its existing production bank loans and 12% Series Two Convertible Promissory Notes pursuant to a $12,700,000 (U.S.) and $4,000,000 (Cdn.) line of credit. The U.S. line of credit will comprise a $8,500,000 (U.S.) production loan bearing interest at U.S. bank prime plus 1¼%, a $3,200,000 (U.S.) demand loan payable January 4, 1984 bearing interest at U.S. bank prime plus 1½%, and a $1,000,000 (U.S.) revolving demand loan bearing interest at U.S. bank prime plus 1%. The Canadian loan of $4,000,000 bears interest at prime plus 1% and will be secured by property and equipment. Because the 12% Series Two Convertible Promissory Notes will be replaced by debt due after December 31, 1983 and are repayable prior thereto from the proceeds of any equity financing and a substantial portion of the refinanced bank loans are repayable out of future production proceeds and are not expected to require the use of working capital, only $510,000 of the long-term debt has been included in current liabilities.

Estimated principal payments on long-term debt in the next five years resulting from the refinancing are as follows: 1983 — $1,499,400; 1984 — $6,433,900; 1985 — $2,499,800; 1986 — $3,499,800; 1987 — $2,499,800.

If the demand production bank loans which are repayable in U.S. funds had been translated at the rate of exchange as at December 31, 1982, the additional long-term debt liability would have been $357,164.

5. CAPITAL STOCK

Common shares

Changes in the issued capital stock for the one year and fourteen months ended December 31, 1982 are as follows:

	Number of Shares	Carrying Value
Balance as at October 31, 1980	3,355,369	$ 6,548,132
Issued for cash pursuant to share option agreements	117,000	324,990
Issued in exchange for promissory notes pursuant to share purchase plan (note 9(c))	137,000	552,760
Issued in exchange for interest in property	65,000	325,000
Issued to directors on amalgamation	7	42
Issued in business combination	619,503	2,201,000
Issued in exchange for consulting services rendered	10,000	50,000
	948,510	3,453,792
Balance as at October 31, 1981	4,303,879	10,001,924
Issued for cash pursuant to share option agreements	5,000	10,780
Issued for cash pursuant to private placement	200,000	1,000,000
Issued on conversion of preferred shares	700,000	2,800,000
Purchase of shares issued pursuant to share purchase plan (note 9(c))	(137,000)	(334,280)
	768,000	3,476,500
Balance as at December 31, 1982	5,071,879	$13,478,424

At December 31, 1982 common shares were reserved for issuance pursuant to:

	Number of Shares
Stock options granted to officers, directors and employees exercisable at $1.70 expiring from time to time until May 5, 1985	503,000
Conversion privileges on Convertible Debenture	117,600
Warrants exercisable at $5.00 each held by 12% Series Two Convertible Promissory noteholder expiring November 1983	200,000
Operating lease (note 8)	12,200
	832,800

6. INTEREST ON LONG-TERM DEBT

In accordance with the Company's accounting policies, interest in the amount of $1,686,152 and $659,320 was capitalized on major development projects and mineral properties for the fourteen months ended December 31, 1982 and the year ended October 31, 1981, respectively.

7. SEGMENTED INFORMATION

The Company has two areas of activity:

(a) the exploration for and development and sale of production from petroleum and natural gas properties; and

(b) the exploration and development of mineral properties.

Since the mineral properties are still in the exploration phase, industry segment information has been given only in identifiable assets under geographic segments. Information about the Company's operations by geographic segment is as follows:

Fourteen months ended December 31, 1982	Canada	United States	Other	Total
Oil and gas sales	$ 929,737	$ 2,085,608		$ 3,015,345
Operating income	$ 346,001	$ 695,810		$ 1,041,811
Loss on investments in other companies				(206,225)
Interest and other				423,893
General and administrative expenses				(887,382)
Interest on long-term debt				(1,949,705)
Loss				$ (1,577,608)
Identifiable assets				
Petroleum and natural gas operations	$ 8,869,194	$18,768,623	$694,376	$28,332,193
Mineral operations	4,160,217	—	—	4,160,217
	$13,029,411	$18,768,623	$694,376	32,492,410
Promissory Note Receivable				100,000
Receivable under share purchase plan				140,250
Investments in other companies				373,318
Corporate assets				233,325
Total assets				$33,339,303

Year ended October 31, 1981	Canada	United States	Other	Total
Oil and gas sales	$ 741,128	$ 454,014		$ 1,195,142
Operating income	$ 224,035	$ 283,856		$ 507,891
Gain on sale of investments in other companies				30,251
Interest and other				3,168
General and administrative expenses				(881,726)
Interest on long-term debt				(1,074,258)
Loss				$ (1,414,674)
Identifiable assets				
Petroleum and natural gas operations	$ 8,849,731	$14,412,898	$568,489	$23,831,118
Mineral operations	2,582,340	—	—	2,582,340
	$11,432,071	$14,412,898	$568,489	26,413,458
Receivable under share purchase plan				693,010
Investment in other companies				651,333
Corporate assets				179,791
Total assets				$27,937,592

8. **COMMITMENTS**

At December 31, 1982, future minimum lease payments under an operating lease relating to the rental of office and other building facilities until expiry are as follows: 1983 — $11,400; 1984 — $59,400. Under such operating lease the Company is also committed to issue 6,100 of its common shares to the lessor annually in each of 1983 and 1984.

9. **RELATED PARTY TRANSACTIONS**

(a) Property and Equipment

In 1982, the Company acquired for $510,000 petroleum and natural gas properties from a company of which an officer and director of the Company is an officer. Consideration comprised the return by the Company to the vendor of a promissory note in the amount of $330,000, the issuance of a promissory note to the vendor in the amount of $146,000 bearing interest at prime plus ½% and repayable out of future production proceeds of the acquired properties and cash of $34,000.

(b) Promissory Note Receivable

At December 31, 1982, a director and officer was indebted to the Company in the amount of $100,000 which advance bears interest at prime and is due January 2, 1984.

(c) Share Purchase Plan

In 1982 with the approval of the Alberta Securities Commission 137,000 common shares issued to directors and officers under a Share Purchase Plan were returned to the Company in full satisfaction of promissory notes aggregating $552,760 issued to the Company by the directors and officers. The transaction has been reflected in the financial statements as a purchase of the common shares by the Company.

(d) 12% Series Two Convertible Promissory Notes

Reference is made to note 4.

10. **SUBSEQUENT EVENT**

Subsequent to December 31, 1982, the Company issued 200,000 common shares for $2.50 cash each. Reference is made to note 4.

11. **STATUTORY INFORMATION**

During the fourteen months ended December 31, 1982, the consolidated group of companies paid no remuneration to the Company's seven directors in their capacity as directors and paid $277,740 to six officers of the Company, five of whom were also directors.

Auditors' Report

To the Shareholders of
Seagull Resources Limited

We have examined the consolidated balance sheet of Seagull Resources Limited as at December 31, 1982 and the consolidated statements of earnings, deficit and changes in financial position for the fourteen months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the fourteen months then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting as described in note 2, on a basis consistent with that of the preceding year.

Thorne Riddell

Chartered Accountants

Calgary, Canada
April 13, 1983

Corporate Information

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Calgary, Alberta

Eric Nissen
Calgary, Alberta

John A. Downing
Calgary, Alberta

Louis R. Fyffe
Calgary, Alberta

Ronald J. Farano
Toronto, Ontario

Arthur F. Coady
Calgary, Alberta

Officers

Hugh C. Findahl
President and Chief Executive Officer

Louis R. Fyffe
Vice-President, North American Exploration

Russell G. Jensen
Vice-President

Finbarr J. O'Brien
Controller

Arthur F. Coady
Secretary

Eric Nissen
Assistant Secretary

Other Key Personnel

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Manager, Coal

Roy Nelson
Manager, Engineering & Production

Roxanne Becker
Houston Office Manager

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Auditors

Thorne Riddell

Stock Exchange Listing

The Alberta Stock Exchange
Calgary, Alberta
Symbol — SGU

NASDAQ, U.S.A.
Symbol — SGULF

Banks

Mercantile Bank of Canada
Calgary, Alberta

Texas Commerce Bank
Houston, Texas

Late in 1982, Seagull's Canadian Corporate offices were moved to the Seagull Building, Calgary, Alberta. (bottom)

Effective May 1, 1983, Seagull's Houston offices are located in this recently constructed building in the Westchase area of Houston.

Official signing of an Agreement covering the first direct investment in a North American oil and gas venture by Taiyo with Seagull — Hugh C. Findahl, President of Seagull and R. Nishimura, Manager, Coal Development & Marketing Department.

Seagull Resources Limited

1982 Annual Report

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